Sugar Quarterly

Q1 2021

RaboResearch Food & Agribusiness March 2021

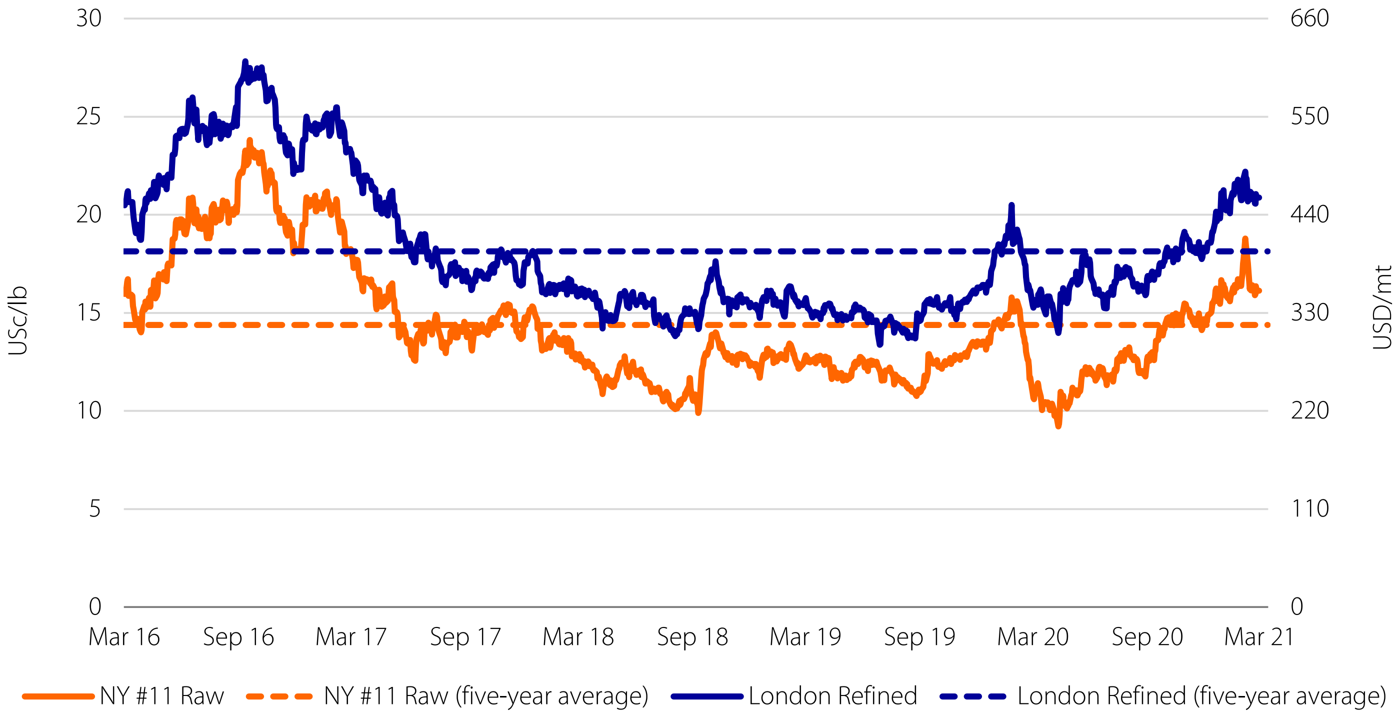
Rabobank

Summary

- World raw sugar prices have been moving sideways recently following a strong run-up early in the year. After ICE #11 (March 21) reached close to USc 19/lb in mid-February, May 21 futures are now at around USc 16/lb. Concerns about the current crop in Thailand together with logistical bottlenecks in Asia and Brazil are providing support for prices.
- Although the 2019/20 season is estimated to have ended with a slight surplus of 445,000 metric tons raw value (mtrv), Rabobank projects the current 2020/21 season will see a 2.8m mtrv deficit. This is higher than the 0.3m mtrv deficit we projected in December, as our production forecasts have decreased for India, Thailand, and the EU. Our consumption numbers for 2020/21 are still projecting a 1.4% increase compared to last season, but given that the pandemic is far from over, it remains possible that this rebound in consumption might need to be revised down.
- Looking further ahead into 2021/22, Rabobank's early projections indicate a 1.5m mtrv surplus, as production increases will more than offset a rebound in consumption. Production recoveries in Thailand, the EU, and Australia are expected, as well as continued increases in India, China, and Pakistan.
- Going forward, one of the factors to keep watching is cane development in Brazil, particularly as cane areas continue to experience drier-than-normal weather. Prospects for the next Thai crop will also be monitored closely, as improved growing conditions and better cane prices point to a recovery in output. Lastly, how the pandemic unfolds this year could change consumption prospects.

World Market Prices

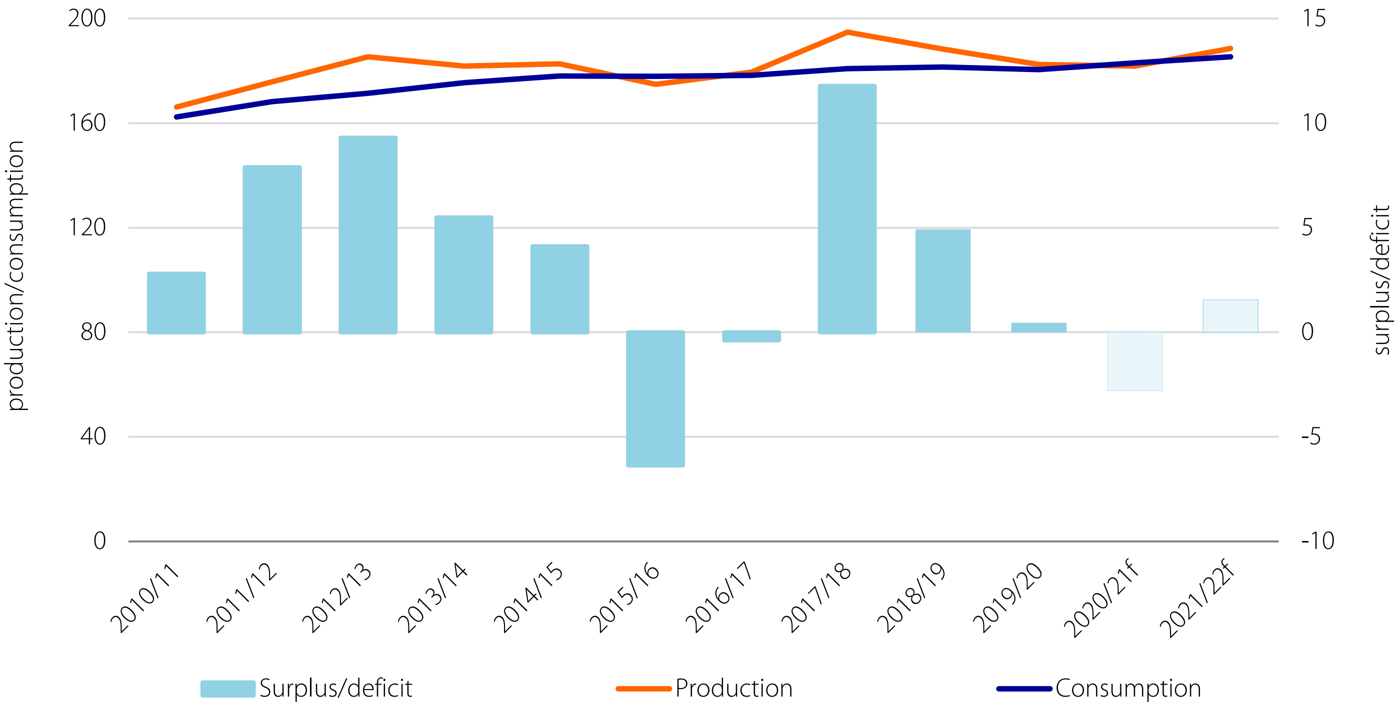
USc/lb, USD/mt



Source: Bloomberg, Rabobank 2021

Global Supply/Demand Balance

million mtrv



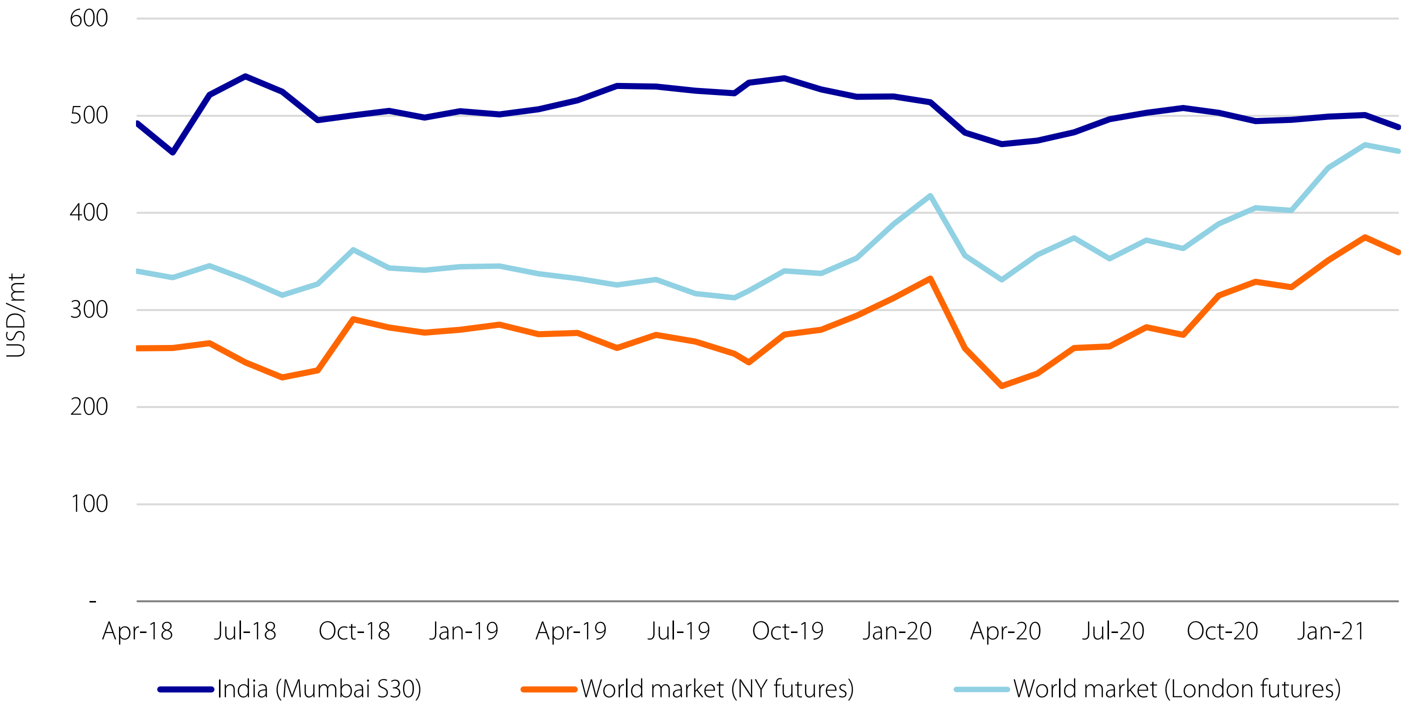
Sources: F.O. Licht, Rabobank 2021

India

- India's 2020/21 harvest is progressing strongly, with ISMA reporting over 23mmt of sugar produced as of February 28 – up 20% YOY. This pace is comparable with previous years when production exceeded 30mmt. Given the strong crush pace so far, 98 mills have ended operations in the 2020/21 season, versus 70 last year, and the states of Maharashtra and Karnataka are expected to wrap up crushing this month. Rabobank now forecasts Indian sugar output at 32.8m mtrv, up 10% YOY but slightly lower than previously anticipated, as there have been reports of cane damage across Uttar Pradesh following unseasonal rainfall.
- Indian export subsidies are confirmed for 6mmt of sugar, at approximately USD 80/mt – versus USD 144/mt last season. Depending on location, this level of support should allow Indian exports to flow, as world prices exceed USc 14.5/lb. Government sources suggest 3.9mmt have already been contracted for export as of March 10, with 1.8mmt dispatched so far.
- Practical challenges persist for these remaining contracts, following a considerable shortage of shipping containers in the region. This has stifled sugar flows, particularly of Indian whites, and is likely to last two to three months. While additional breakbulk shipments may assist the situation, Rabobank anticipates Indian exports to fall below 6mmt in 2020/21 – any remaining subsidy could be rolled into Q4 2021.
- Rabobank pegs 2021/22 Indian production at 33.1m mtrv, up marginally YOY, assuming unthreatening weather conditions and ongoing government support to domestic cane growers.

India: Sugar Prices

USD/mt



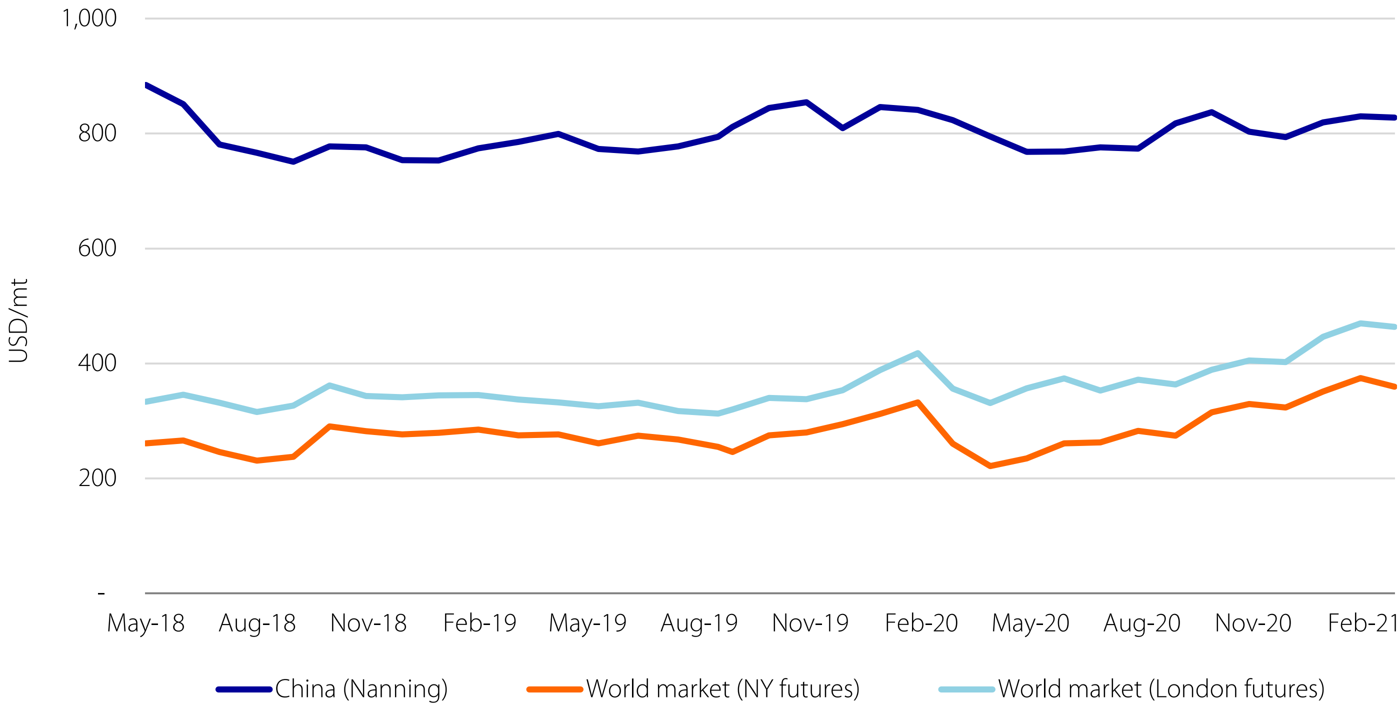
Source: Bloomberg, Rabobank 2021

Thailand / China

- On the demand side, Chinese consumption is entering the off-peak season but will likely pick up after June. Meanwhile, on the supply side, the crushing season is underway and will last until early April. Massive imports are keeping domestic stocks high, which weighs on local prices.
- The narrowing of spreads between international and domestic prices is deteriorating import margins – particularly for out-of-quota imports. In 2020, imports reached a record 5.27mmt – up 55.4% YOY. In 2021, in-quota imports (levied by 15% tariffs) are set to remain the same, while out-of-quota imports (50% tariffs) will fall if high prices persist.
- Sugar syrup imports, which currently enjoy zero tariffs between China and ASEAN countries, continue. Imports in 2020 reached 1.08mmt – a stunning rise of 546.2% YOY. Imports will continue in 2021, but further growth is limited due to: 1) lower output in Thailand, 2) high transport costs, 3) a short shelf-life, and 4) possible stricter trade policies.
- The pace of the Thai crush has dropped sharply in Q1 2021, down 12% YOY, reaching 65.5mmt as of March 11. Given the current slowdown – 44% of domestic mills have closed as of mid-March – the Thai crush looks to be all but over by April. Rabobank forecasts 2020/21 production at 7.65mmt, allowing just over 4mmt for export.
- Strong international prices and much-improved growing conditions suggest a bounce-back in 2021/22 Thai cane production. Early cane estimates vary heavily, ranging between 85m and 100mmt, with replanting continuing into May. Rabobank's preliminary forecast is for a crop of 90mmt cane.

China: Sugar Prices

USD/mt



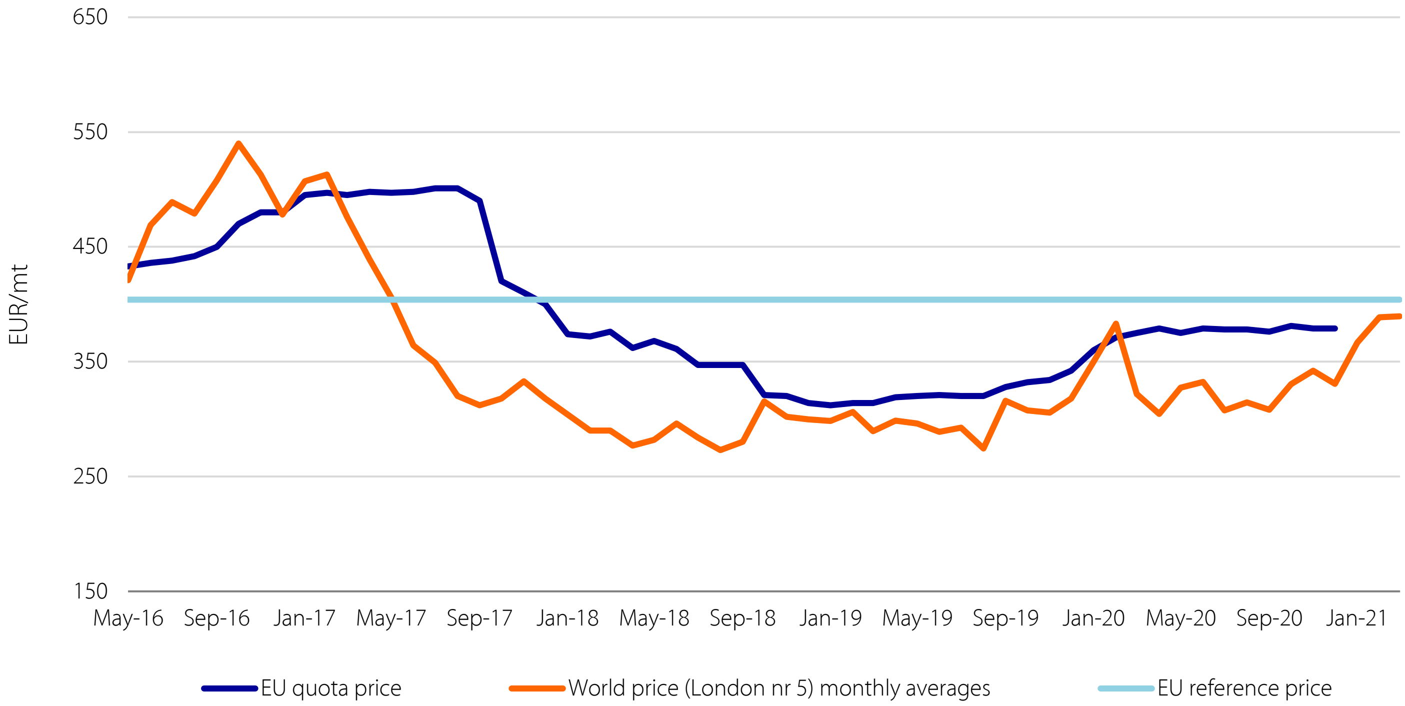
Source: Bloomberg, Rabobank 2021

EU+UK

- The 2020/21 crop endured one of the worst harvests in recent years, given poor weather conditions coupled with the damage caused by the yellows virus. Similar to the European Commission, Rabobank forecasts for 2020/21 sugar production are pegged at 15.2mmt white sugar equivalent (WSE), or 16.5m mtrv, excluding ethanol. That is a 9.2% drop compared to the previous year. As spring plantings have already commenced, eyes now turn to the 2021/22 crop. Our early projections indicate production will be slightly higher at 15.6mmt WSE, or 17m mtrv, mainly due to increased yields. We expect planting area will be relatively flat to slightly higher, though countries like the Netherlands and France have already indicated even less area than last year.
- The battle and unpredictability regarding yellows virus for this next crop have also begun. The Belgian state was taken to the Court of Justice of the European Union by environmental groups, due to its decision to allow emergency use of neonicotinoid insecticides during the 2021 beet campaign. Meanwhile, in France, the Ministry of Agriculture decided to grant farmers a benefit of EUR 26/mt of beet damaged by the yellows virus.
- In terms of sugar consumption, the European Commission revised its 2020/21 estimates down by 150,000 mt, while stocks were revised slightly up. Given many countries are still in partial lockdown and vaccinations are occurring slowly, it remains to be seen what the impact on demand could be in this season.
- All in all, the sugar market in the EU is balanced, which should be supportive to prices. However, at around EUR 466/mt, spot prices in western Europe are at similar levels to the world market.

EU: Sugar Prices

EUR/mt



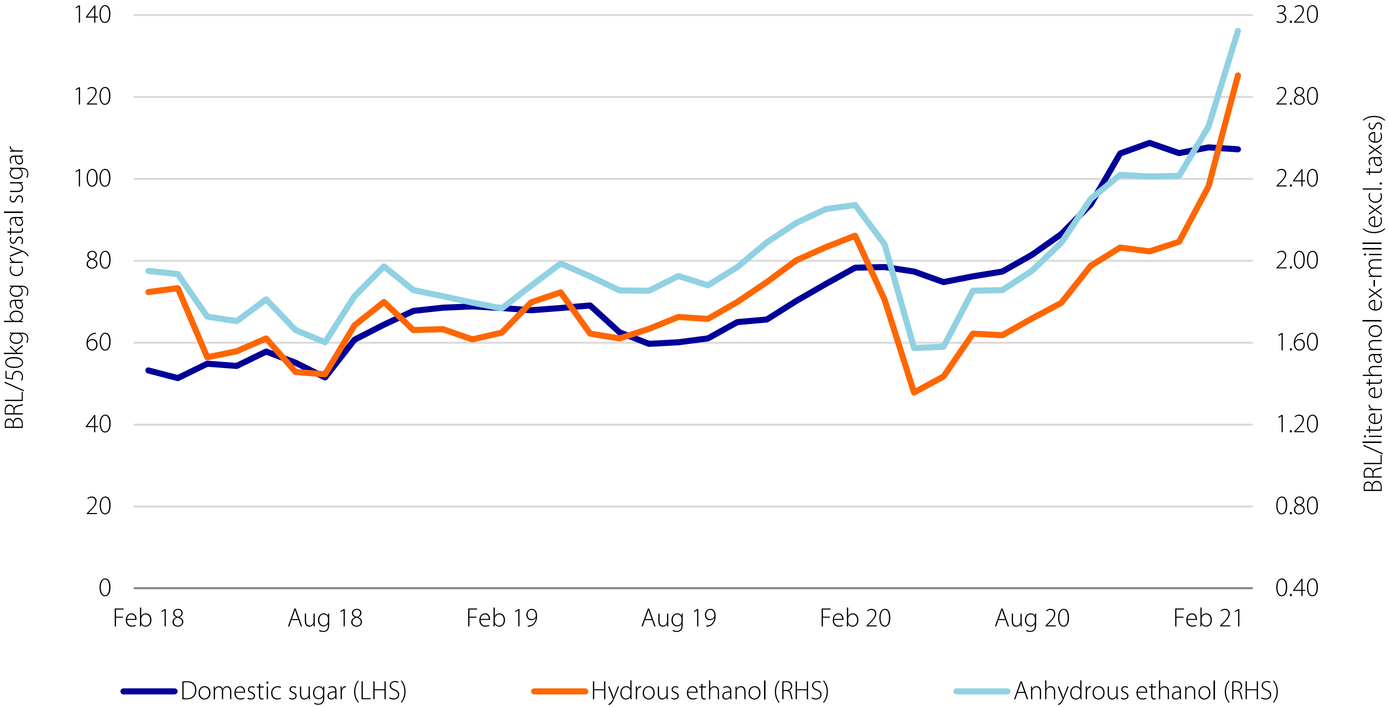
Source: Bloomberg, European Commission, Rabobank 2021

Brazil

- The new 2021/22 season begins in April. February's rainfall was significantly below average levels in many cane regions, and weather remains a concern. For the moment, Rabobank projects cane milled in the Center/South in 2021/22 at 575mmt, versus 605mmt for 2020/21.
- As regards the mix, we currently expect another year of high or maximum sugar, with sugar output projected at close to 36mmt. A very large proportion of expected export sales has already been priced at very favorable levels of New York futures and FX. Delays in this year's soybean harvest and exports have raised concerns that the flow of early season sugar exports could, like last year, be affected by logistical constraints.
- With robust world oil prices plus an outlook for continued Brazilian real weakness, local gasoline prices are well supported, permitting intercrop period ethanol prices to rise to very high levels (BRL 2.90/liter ex-mill without tax, equivalent to USc 15/lb NY sugar futures with FX at BRL 5.60/USD at the time of writing). However, the ethanol price will decline as milling begins in earnest in April. And, with much of the country under more restrictive measures as average daily Covid-19 deaths rise to their highest level yet, fuel demand could see a dip in the coming weeks.
- The current combination of circumstances has created a dilemma for millers – should they begin operations early (i.e. in March) in order to capitalize on the current high ethanol prices? Or should they delay the start until after the beginning of April? This option would give the cane crop more time to recover and develop following the dry conditions of the past 12 months, leading to a higher level of throughput and output.

Brazil: Sugar and Ethanol Prices

BRL/50kg bag, BRL/liter



Source: Bloomberg, Rabobank 2021

North America

- The USDA's WASDE report this month showed the final 2020/21 Mexican export limit to the US as established per the AD/CVD Suspension Agreement. At 670,000 mtrv, total US needs turned out to be less than what was already given to Mexico, according to the December 2020 WASDE, so the final export limit was set at 844,000 mtrv, which includes a small amount from last year's allocation that was exported to the US in October. Per the USDA, Mexico's production for 2020/21 is pegged at 6.2m mtrv, and the exportable surplus left to be sent to the world market is 737,000 mtrv. However, Mexico could export as much as 850,000 mtrv to the world to keep inventories balanced.

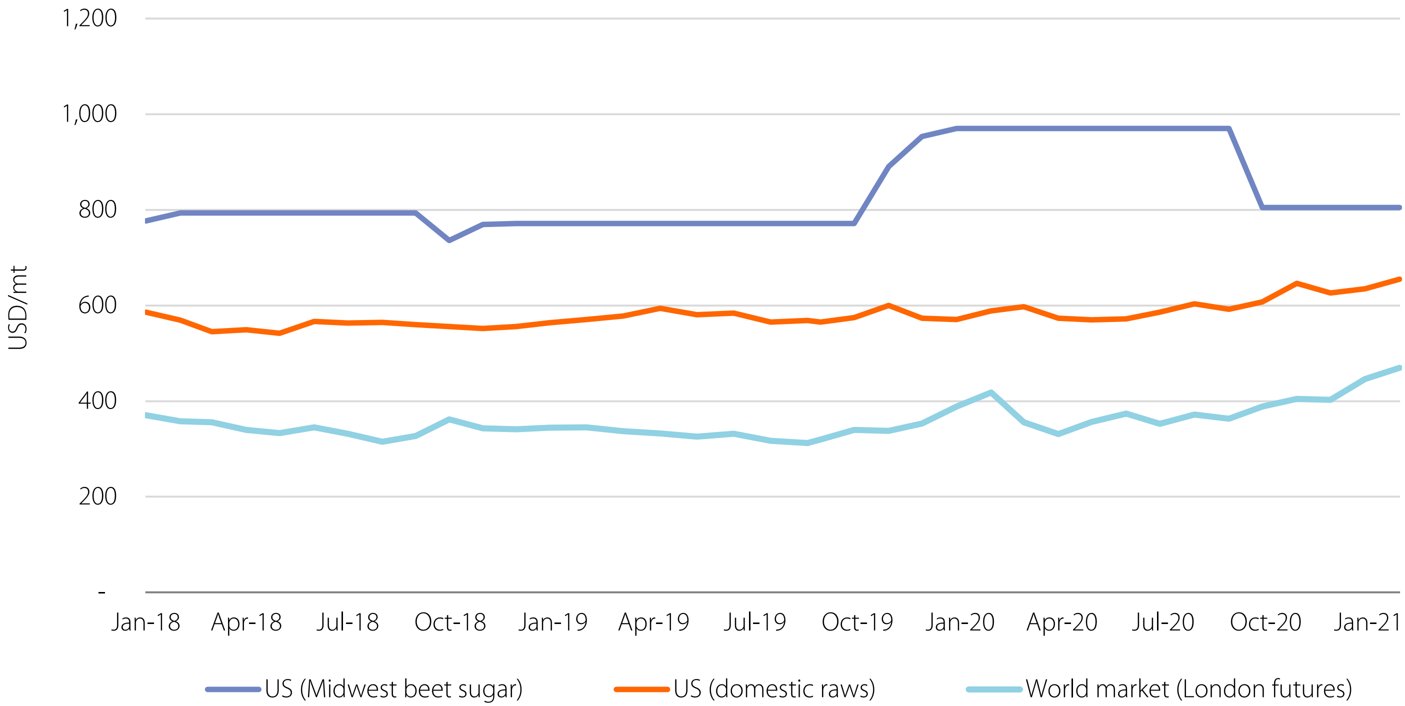
- At 8.5m mtrv, total US production for 2020/21 is 15% higher than last year, and the stocks-to-use ratio is now pegged at 15% – above the 13.5% threshold established for the calculation of US needs. US consumption is expected to decline by 2% after a counterintuitive rebound last year, but any further decline in consumption could depress domestic prices.

- For our early projections for 2021/22, we forecast total US production at 8.3m mtrv, slightly lower than the record high expected this season, and Mexico's production at 6.1m mtrv. With a 1% recovery in consumption, the expected US needs from Mexico would amount to levels similar to this year, at 845,000 mtrv, whereas Mexico's exportable surplus to the world would be 755,000 mtrv.

- According to the USDA, the price spread between US refined beet sugar and world refined prices is expected to be around USc 20/lb for the next six months. The latest US refined price was reported at USc 36.5/lb (or USD 805/mt), down 17% from last summer. Meanwhile, Mexican prices remain firm at around USD 1,065/mt, about 16% higher than during the summer.

US: Sugar Prices

USD/mt



Source: USDA, Rabobank 2021

Australia

- Growing conditions across Queensland and northern NSW have proved a mixed bag for the 2021 crop outlook. Good seasonal rainfall in the wet tropics has been met with fewer sunny days. Further south, the prevailing dry conditions appear detrimental to current cane growth. In contrast, the Burdekin region – which provided 25% of domestic cane production in 2020 – has experienced much more favorable conditions. The three-month weather outlook points to chances of above-average rainfall across Queensland's east coast.

- Rabobank's early season forecast for cane production stands at 31mmt – similar to the 2020 crop. This accounts for highly variable growing conditions across regions and relatively strong 2021 grower pricing. Rabobank forecasts 4.2m to 4.3mmt in sugar production (Oct-Sep), marginally below the five-year average. There remains ample time for weather developments to influence this outlook ahead of the June crush.

- The strength in the Australian dollar is providing a major headwind to grower pricing ahead of the 2021 crush, offsetting the recent ICE #11 price rise. Rabobank forecasts this to persist through 2021, with the currency trading between 0.77 and 0.79 against the US dollar.

Global Outlook

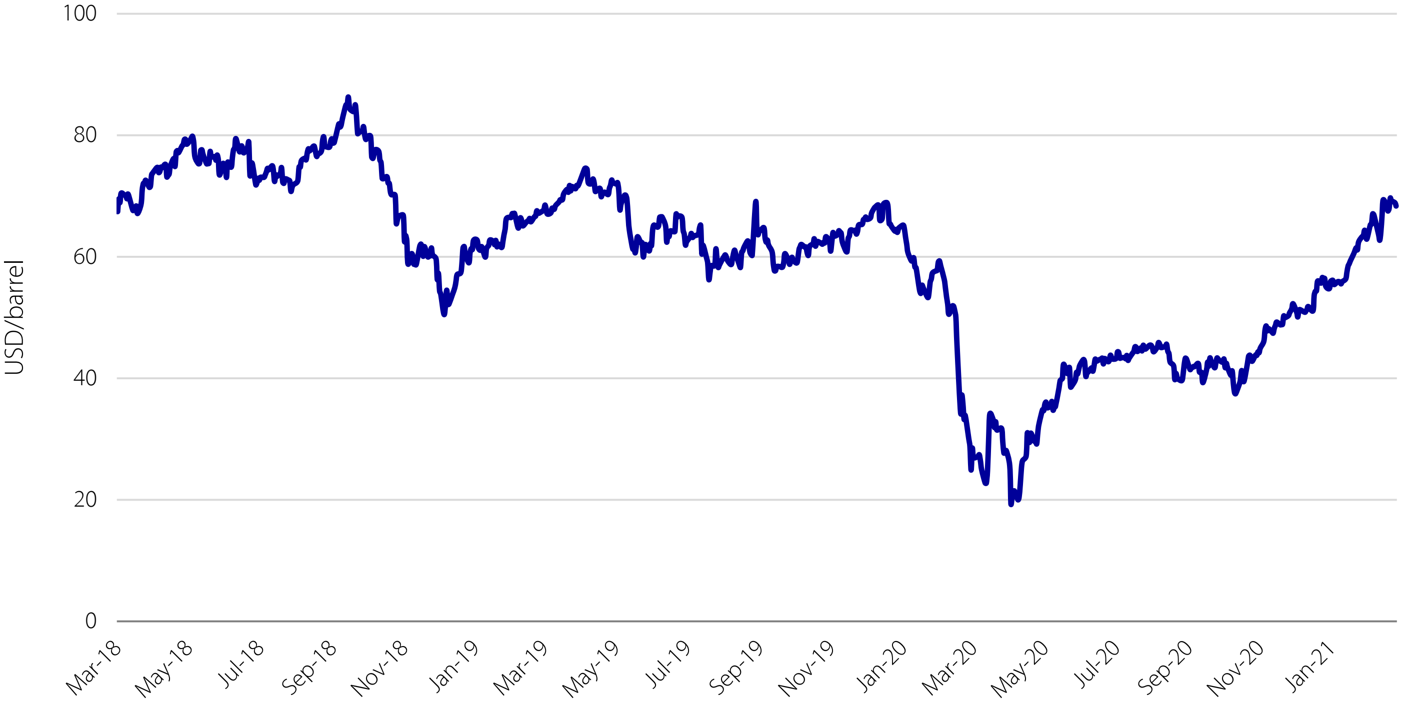
- A revised 2.8mmt global 2020/21 deficit – reflecting downward adjustments to production across Europe, Russia, and Thailand - spells a slight tightening in world stocks. This supportive fundamental outlook is compounded by logistical bottlenecks (particularly in Asia), some short-term physical tightness, and fund inflows.

- Rabobank forecasts ongoing support for sugar prices, with the ICE #11 set to trade between USc 15.0 to USc 15.5/lb through 2021. This level of pricing should keep export flows active through 2021. Levels below USc 15/lb could impact India's willingness to export. Meanwhile, the outlook for robust oil prices and a weak Brazilian real suggest that, if the ethanol market were to be tight, ethanol could become competitive with sugar in 2H 2021. However, the uncertainties regarding ethanol's competitiveness over the year are many (oil prices, FX, local fuel demand, possible interventions in the fuel market), while most of Brazil's projected sugar exports have already been priced at attractive levels of NY futures and FX.

- Higher prices are widespread across multiple agricultural commodity markets, such as soybeans, corn, palm oil, and cotton. With US dollar inflation concerns on the rise, Rabobank sees agri markets being a recent beneficiary of inflation hedges, and both Non-Commercials and Index Traders have increased their long positions year-to-date in sugar. The historical behavior of these participants suggests a high chance of market volatility persisting through 2021 – as the 7% plunge in oil prices on March 18 reminds us.

Global Outlook: Oil Price

Brent, USD/barrel



Source: Bloomberg, Rabobank 2021

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